

PUBLIC VERSION

N. Merfish Supply Co.

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PUBLIC VERSION

Ms. Gloria Blue
Secretary
UNITED STATES TRADE
REPRESENTATIVE
600 17th Street.
Washington, D.C. 20508

Section 203a

*Confidential Business Information is contained
on page 2 and page 5 in this document have been deleted*

Re: Steel Investigation No. TA-201-73 —Carbon Steel Welded Pipe/Tubing (Non-OCTG)
Section 203 remedy phase

Dear Ambassador Zoellick:

On behalf of N. Merfish Supply Co., I submit comments on what action, if any, the President should take in response to affirmative findings of the International Trade Commission in the above referenced investigation with respect to the importation of Carbon Steel Welded Pipe (Non-OCTG). I shall not comment on other product categories.

We hereby request that proprietary treatment be accorded to confidential business information contained in this correspondence. Bolded double brackets mark the confidential information (()). This confidential business information concerns or relates to the sales, production, customers, costs, investments, vendor relations, and business plans of N. Merfish Supply Co. None of this information is generally available to the public, and its disclosure would cause

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substantial harm to the competitive position of N. Merfish Supply Co. that provided the information.

This PUBLIC VERSION should be made available for public release.

N. Merfish Supply Co., founded in 1920, is an 81-year-old, family owned /managed company that employs approximately 90 people. We engage in the master distribution of carbon steel pipe (non-OCTG) and carbon steel fittings/flanges from our location in Houston serving a 22-state area. As a master distributor we purchase large quantities of pipe/fittings/flanges and then sell truckload quantities to distributors, who then sell the product the contractors for installation. Over the last three fiscal years, we have distributed annually over (()) tons of Carbon Steel Welded Pipe (Non-OCTG).

The category of “Carbon Welded Tubular Products other than OCTG” is overly broad and includes product ranging from the most simple (untested bare tubing) to something much more complex (heavier gauge pipe that is tested by multiple systems and is coated). Some of the product is round and very light gauge while other product is produced in various shapes, including squares and rectangular, with thick gauges. The uses of the product range from light tubing for furniture to a thicker gauge pipe for the conveyance of liquids or air. Due to the wide range of product, the application of any remedy would be best administered based upon a harmonized code.

More specifically, we distribute carbon steel pipe, more commonly called “standard pipe”—harmonized code # 7305.11.10. Standard Pipe is used in construction, plumbing, air conditioning/heating systems, and for structural uses, to name the most common. The pipe is tested by multiple methods, including hydrostatically testing and is customarily lacquer coated to retard rust or is galvanized for long term rust prevention. Standard pipe is available in sizes from as small as 1/8” to as large as 24” and is generally specified with the ASTM A53 standard. No mill in the USA makes all of the sizes the market consumes.

Of particular concern is the domestic industry’s ability to supply the USA demand for standard pipe. In particular the sizes of 1/2 thru 4” according to ASTM A53 is of greatest concern. Two pipe mills (as of December 19, one has agreed to buy the other reducing the number of producers in the US to one) in the USA manufacture product in this size range and they are located in Pennsylvania. These mills do not have the capacity to supply sufficient product to fulfill the demand in the USA. Generally, in this size range, the industry view is that imports constitute over 75% of the supply for the USA market. In my opinion, in the Gulf Coast the import penetration is above 90%. On the West Coast, I believe one would find an equal or even higher import penetration. Similarly, on the East Coast the import penetration is substantially less because the market is located much closer to the two domestic sources in Pennsylvania. Freight and location play a major role in the ultimate pricing of steel products. Therefore, a remedy that would severely restrict supply of these sizes of pipe would severely retard construction, a mainstay of our economy.

Looking more specifically at the sizes manufactured and their availability in the United States, there is even more concern. Natural Gas piping within a residence is generally in the small sizes of 1/2, 3/4 and 1”. In the manufacturing process, these sizes have very poor product yields. It takes over 2,500 feet of 1/2 to equal a ton as compared to only 210 feet of 4”. Hence, pipe mills charge a substantial premium for the

small sizes and will not devote much of their production to these sizes. Import mills are willing to supply product in these sizes, meeting the needs of the market. If these sizes were not available or if supply were overly restricted, residential construction would be severely retarded. A serious disruption to the market would occur and candidly, my company would be irreparably harmed.

The domestic standard pipe industry has been one of the most aggressive steel groups in the use of dumping duty and countervailing duty actions. This has established substantial protection for the domestic industry. Over 20 dumping duty orders are in place and each has resulted in restricting supply into the USA from other countries. In fact, even while the Section 201 has been proceeding, there is another standard pipe dumping duty case against China. Therefore, even a moderately restrictive remedy would have severe results, as the duties likely to be imposed on Chinese product will restrict supply and provide relief to the domestic industry.

One of the problems with protecting the domestic industry is whether we are protecting the industry or protecting old technology. The remaining domestic suppliers of ½ thru 4" continue to use a manufacturing process which is less efficient than the foreign competition. The domestic methodology of Furnace Weld pipe has been universally abandoned throughout the world as being antiquated. Originally conceived back in the mid 20th century, this methodology has been replaced around the world with pipe manufactured by the Electric Resistance Welded methodology.

With respect to the type of action the President should take, any remedy for a market that is supplied with over 75% of imported products is problematic. Further in an industry where for each steel producing job there are 57 steel consuming jobs any restrictive action must be fully contemplated for its far-reaching impact. This past week it was announced that AK Sawhill Tubulars, one of the two remaining domestic ½ thru 4" mills, has agreed to be sold to Wheatland Tube. I believe a remedy should provide relief, yet not burden the consumer. This seems to be the challenge.

Below are my comments on some of the actions, if any, the President should take:

Primarily, I suggest that the industries aggressive use of the dumping duty laws has or will in the near future restrict supply to the extent that pipe prices will rise when the economy recovers. Further consolidations similar to that announced this past week between AK Sawhill and Wheatland will assist the domestic industry in its efforts to increase prices and profitability. Therefore my first recommendation is to do nothing. However following are my comments in the instance where the President thinks some action is required.

COMMENTS ON RECOMMENDATIONS OF ITC: The International Trade Commissioners have sent to the President various remedy suggestions for Carbon Steel Welded Pipe (Non-OCTG). These remedies vary from a quota of 2.6 mm tons, with a tariff for imports in excess of this quantity to a similar proposal with a quota of 1.4mm tons to the imposition of tariffs without a quota.

QUOTA-TARIFF: This was the remedy suggested by a majority of the International Trade Commissioners.

As to the quota portion of this plan, the administration of a quota by nature is problematic, but it does allow an adjusted market price to emerge if the quota is not overly restrictive. Markets like the Gulf Coast, West Coast and Florida will continue to be supplied by imported products. As the supply tightens, the import prices will rise and allow the domestic mills to increase their prices and market penetration. In fact, due to the likely removal of China as a source (the result of pending dumping duty action), the supply of product is already retarded to the degree which will result in higher market prices. An overly restrictive quota may result in product shortages.

This remedy is most reflective of the core economic principle of supply-demand. As to the administration of such a plan, quotas are customarily determined from historical levels of market penetration. I suggest the historical level be closely examined and quotas established which will not severely retard the availability of product.

Of course there is a substantial difference between the amount of the quota suggested by the commissioners. In our opinion, a quota of 2.6mm tons per year is the correct amount. This is an amount similar to the level of imports over the last few years. Theoretically, a quota should be sufficient to allow free trade while providing some modicum of support to the domestic industry. I believe that through the domestic industry's substantial anti-dumping suits they will receive or have been benefiting from decreased import supply to our market. To impose a restrictive quota on top of the dumping orders would be overly restrictive.

As to the tariff in excess of the quota, the tariff should serve as a deterrent toward the enforcement of the quota. Therefore in my opinion, a tariff of 10% will be just as effective as a 20% tariff. Each and every importer will endeavor to be certain that the product they import will be within the quota and not subject to the tariff. In a commodity product like Carbon Steel Welded Pipe (Non-OCTG), a tariff of 10% will be sufficient to restrict supply.

If the President decides to implement some restrictions, we strongly suggest a quota of 2.6mm tons per year be adopted with a tariff of 10% for quantities in excess of this quota.

TARIFF ONLY: If the President is considering a tariff without a quota, we suggest a tariff of 5% or less. It has been reported that for every single steel-producing job affected there are 57 other jobs, which use steel products that will be affected. If a tariff in excess of 5% is chosen, the impact would be profound as relates to downstream industries and ultimately the consumer. Further the question of whom shall receive the tariffs needs to be considered. A tariff will certainly increase the price of the product by a similar amount and generate a greater profit for the domestic industry. If these tariff funds were then given to the industry under the Byrd amendment, the domestic industry would receive double benefits.

A tariff of a lesser amount would be less harmful to our whole economy. A tariff of 5% for a period of three years will allow the industry to begin to recover and yet not be overly restrictive to the related industries. One must be careful not to create a situation whereby the price of steel products in the USA is so high that steel consuming jobs are reconstituted offshore resulting in more unemployment for

Americans.

Of particular concern to my company would be the situation as regards ((

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OTHER ISSUES: Another issue, which I think should be considered, is the timing of the remedy the President chooses. I consider it grossly unfair that the plan be implemented on product already in transit to the USA. The effect of a prompt implementation can be quite severe as evidenced when President Clinton imposed the 201 Line Pipe remedy resulting in product in transit consuming a country's whole yearly quota and the overage subject to substantial tariffs. In all fairness, product that is already in transit at the time of the remedy's publication in the Federal Register should be exempt from the remedy.

The purpose of this letter is to share with the President the views of a relatively small, carbon steel pipe distributor. The remedy which is ultimately adopted will have significant impact on my family's 80 + year old company. I can only hope that during the President's deliberations he will consider the plight of the many small businesses like ours that are dependent on the distribution and use of steel products.

If there are any questions, please contact me at 713.867.0716. Thank you in advance for any consideration we are accorded.

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The undersigned officer of N. Merfish Supply Co certifies that the information contained in this correspondence is, to the best of his knowledge, accurate and complete.

Respectfully submitted,

Gerald Merfish
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